

UNIVERSITY COLUMNS

Natchitoches, Louisiana

Financial Report

Year Ended June 30, 2012 and 2011

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Darnall, Sikes, Gardes & Frederick

(A Corporation of Certified Public Accountants)

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Independent Auditor's Report

The Board of Directors
University Columns
Natchitoches, Louisiana

We have audited the accompanying financial statements of the business-type activities of University Columns, as of and for the years ended June 30, 2012 and 2011, which comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of University Columns' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of University Columns as of June 30, 2012 and 2011, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2012, on our consideration of University Columns' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Management has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Darnall, Sikes, Gardes & Frederick

A Corporation of Certified Public Accountants

Eunice, Louisiana
December 15, 2012

BASIC FINANCIAL STATEMENTS

UNIVERSITY COLUMNS

Statements of Net Assets June 30, 2012 and 2011

ASSETS

	2012	2011
ASSETS		
Cash	\$ 155,127	\$ 129,185
Rents and fees receivable, net	76	78,429
Cash - restricted	91,741	89,285
Prepaid expenses	40,643	35,929
	<u>287,587</u>	<u>332,828</u>
 PROPERTY AND EQUIPMENT, at cost	 7,172,390	 7,145,765
Less: accumulated depreciation	<u>(3,587,599)</u>	<u>(3,418,125)</u>
	<u>3,584,791</u>	<u>3,727,640</u>
 OTHER ASSETS		
Notes receivable - affiliates	208,818	-
	<u>208,818</u>	<u>-</u>
 TOTAL ASSETS	 <u>\$ 4,081,196</u>	 <u>\$ 4,060,468</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 427,850	\$ 200,199
Intercompany accounts payable	147,828	143,178
Accrued interest payable	208,738	213,194
Deferred rent revenue	3,200	10,177
Security deposits	65,016	74,043
	<u>852,632</u>	<u>640,791</u>
 Notes payable - affiliates	 -	 948,489
	<u>-</u>	<u>948,489</u>
 TOTAL LIABILITIES	 <u>852,632</u>	 <u>1,589,280</u>
 NET ASSETS		
Invested in capital assets, net of debt	3,584,871	2,565,957
Unrestricted	<u>(356,307)</u>	<u>(94,769)</u>
Total net assets	<u>3,228,564</u>	<u>2,471,188</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 4,081,196</u>	 <u>\$ 4,060,468</u>

See accompanying notes.

UNIVERSITY COLUMNS

Statements of Revenues, Expenses and Changes in Net Assets Years Ended June 30, 2012 and 2011

	2012	2011
SUPPORT AND REVENUES		
Apartment rent	\$ 2,374,626	\$ 2,312,999
Fee income	62,567	35,768
Interest income	4,678	4,660
Miscellaneous	<u>31,412</u>	<u>39,516</u>
Total support and revenues	2,473,283	2,392,943
OPERATING, GENERAL, AND AND ADMINISTRATIVE EXPENSES	<u>1,715,907</u>	<u>1,679,768</u>
INCREASE IN NET ASSETS	757,376	713,175
NET ASSETS, beginning	<u>2,471,188</u>	<u>1,758,013</u>
NET ASSETS, ending	<u>\$ 3,228,564</u>	<u>\$ 2,471,188</u>

See accompanying notes.

UNIVERSITY COLUMNS

Statements of Cash Flows Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and users	\$ 2,456,425	\$ 2,407,395
Interest received	4,678	4,660
Payments to suppliers	(975,357)	(952,302)
Payments to employees and related benefits	(248,074)	(233,388)
Interest paid	(25,343)	(288,786)
Net cash provided by operating activities	<u>1,212,329</u>	<u>937,579</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(26,624)	(73,085)
Net cash used by investing activities	<u>(26,624)</u>	<u>(73,085)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Increase) decrease in notes to/from affiliates	(1,157,307)	(858,801)
Net cash used by financing activities	<u>(1,157,307)</u>	<u>(858,801)</u>
Net increase in cash and cash equivalents	28,398	5,693
CASH AND CASH EQUIVALENTS, beginning of year	<u>218,470</u>	<u>212,777</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 246,868</u>	<u>\$ 218,470</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in net assets	\$ 757,376	\$ 713,175
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Bad debts	83,556	95,079
Depreciation and amortization	169,473	165,147
(Increase) decrease in:		
Rent and fees receivable	(5,203)	8,935
Prepaid expenses	(4,714)	(1,786)
Increase (decrease) in:		
Accounts payable	227,651	133,850
Intercompany accounts	4,650	(348)
Interest payable	(4,456)	(198,820)
Deferred rent revenue	(6,977)	10,177
Security deposits payable	(9,027)	12,170
Net cash provided by operating activities	<u>\$ 1,212,329</u>	<u>\$ 937,579</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO THE STATEMENT OF NET ASSETS:		
Cash and cash equivalents, end of year		
Cash - unrestricted	\$ 155,127	\$ 129,185
Cash - restricted	91,741	89,285
Total cash and cash equivalents	<u>\$ 246,868</u>	<u>\$ 218,470</u>

See accompanying notes.

UNIVERSITY COLUMNS

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

University Columns provides student housing to students on the campus of Northwestern State University, Natchitoches, Louisiana. University Columns apartment complex is managed under contract by Campus Living Villages Fund (Campus), a student housing organization based in Australia. All personnel employed in the leasing, management, maintenance and operation of University Columns are employees of Campus.

Basis of Accounting

University Columns utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting in accordance with generally accepted accounting principles.

Depreciation

Depreciation is calculated over the estimated useful lives of the respective assets using the straight-line method.

Maintenance, Capitalization, and Disposal Policies

Repairs and maintenance are expensed as incurred. Expenditures incurred in the construction or that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

Statement of Cash Flows

For the purpose of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid interest-bearing deposits with a maturity of three months or less when purchased.

Use of Estimates

Preparation of University Columns' financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loan Costs

Loan costs are being amortized on a straight line basis over the term of the related loan.

UNIVERSITY COLUMNS

Notes to Financial Statements

NOTE 2 CASH AND CASH EQUIVALENTS

	2012	2011
Unrestricted:		
J. P. Morgan Chase - operating	\$ 85,560	\$ 129,185
J. P. Morgan Chase - rent receipts	69,567	-
Total unrestricted	<u>155,127</u>	<u>129,185</u>
Restricted:		
J.P. Morgan Chase - security deposits	<u>91,741</u>	<u>89,285</u>
Total restricted	<u>91,741</u>	<u>89,285</u>
Total cash and cash equivalents	<u>\$ 246,868</u>	<u>\$ 218,470</u>

	Bank Balance 2012	Bank Balance 2011
Unrestricted:		
J. P. Morgan Chase - operating	\$ 119,820	\$ 121,800
J. P. Morgan Chase - rent receipts	30,300	-
Total unrestricted	<u>150,120</u>	<u>121,800</u>
Restricted:		
J. P. Morgan Chase - security deposits	<u>93,513</u>	<u>133,621</u>
Total restricted cash and cash equivalents	<u>93,513</u>	<u>133,621</u>
Total cash and cash equivalents	<u>\$ 243,633</u>	<u>\$ 255,421</u>

NOTE 3 PROPERTY AND EQUIPMENT

Category	Cost	Estimated Useful Lives
Building	\$ 5,613,269	40 years
Streets, sidewalks and pool	578,150	40 years
Fences, gates and signs	130,491	15 years
Interior fixtures	209,994	5 years
Furniture and lighting	136,718	10 years
Equipment	<u>503,768</u>	10 years
Total depreciable assets	7,172,390	
Less: Accumulated depreciation	<u>(3,587,599)</u>	
Net depreciable assets	<u>\$ 3,584,791</u>	

UNIVERSITY COLUMNS

Notes to Financial Statements

NOTE 4 RELATED PARTY TRANSACTIONS

During development and opening of the project, a total of \$700,000 in construction management, marketing, value engineering, and development expenses were paid to a related party and capitalized as part of the building cost.

A monthly management fee of 5% of gross revenues is paid to a related part as compensation for running the daily operations of the apartment complex. The amount recorded as due to related parties includes costs paid on behalf of the complex by related parties for management fees, expenses and construction.

NOTE 5 COMMITMENTS

Campus has built and operates the apartment complex on land leased from Northwestern State University of Louisiana at Natchitoches. The lease expires on September 1, 2034. The annual rent is equal to an annual base rent of \$1,000 plus an amount equal to 25% of the fund's net cash flow as defined in the ground lease agreement. Additionally, an annual rental of 5% of the net cash flow is to be paid to the improvements owner, an organization in connection with the project. All furniture, fixtures and equipment permanently affixed to the land become the property of Northwestern State University at Natchitoches, Louisiana upon expiration of the lease. However, at any time during the term of the lease, Northwestern State University at Natchitoches, Louisiana, has the right to purchase the complex at a purchase price as defined in the ground lease agreement.

NOTE 6 RELATED PARTY LOANS

A loan procedure exists whereby, the complex cash flows, after the payment of percentage rent to the Lessor, are made available to support the payment of the Project Mortgage and Permitted Mortgages of other affiliated partnerships with interest at 10% per annum. At June 30, 2012, \$1,075,110 is owed by affiliates under this loan procedure.

There is a note obligation to an affiliate with interest at an effective rate of 3% per annum. Unpaid scheduled principal and interest, if any, do not accrue further interest. The note is payable monthly from the cash flow after payment of all project costs and expenses, the Project Mortgage, related party loans, percentage rent to the Lessor and advances under related party loan procedures.

The Complex is a co-obligor with other affiliated entities on notes and accrued interest to an affiliate and is a contingent beneficiary or is contingently liable on such notes. Once the note is current, any excess cash flow is made available as loans to support the payment of the notes of other affiliated companies. The amount of outstanding principal on the note is \$866,292 at June 30, 2012.

UNIVERSITY COLUMNS

Notes to Financial Statements

NOTE 7 FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy requires the entity to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing methods, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following methods and assumptions were used by University Columns in estimating fair values of financial instruments as disclosed herein:

Cash and interest-bearing deposits—The carrying amount of cash and short-term instruments approximate their fair value.

Accounts receivables and other current assets—These items are recorded at amounts that approximate fair value due to their short term nature.

Accounts Payable and other accrued liabilities—These items are recorded at amounts that approximate fair value due to their short term nature.

Long-term debt—The carrying amounts of all long-term debt instruments approximate fair value.

NOTE 8 SUBSEQUENT EVENTS

For the year ended June 30, 2012 University Columns has evaluated subsequent events through December 15, 2012, the date these financial statements were available to be issued.

INTERNAL CONTROL AND COMPLIANCE



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 Jeremy C. Meaux, CPA
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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 Seth C. Norris, CPA
 W. Kyle George, CPA, MBA
 Mary Catherine Holliser, CPA

To the Board of Directors of
University Columns
Natchitoches, Louisiana

We have audited the financial statements of the business-type activities of University Columns as of and for the year ended June 30, 2012 and have issued our report thereon dated December 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered University Columns' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of University Columns' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether University Columns' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Dannall, Sikes, Gardes & Frederick

A Corporation of Certified Public Accountants

Eunice, Louisiana
December 15, 2012

UNIVERSITY COLUMNS

Summary of Prior Year Findings
Year Ended June 30, 2012

There are no prior year audit findings.

UNIVERSITY COLUMNS

Schedule of Findings and Questioned Costs Year Ended June 30, 2012

Part I Summary of Auditor's Results

FINANCIAL STATEMENTS

Auditor's Report – Financial Statements

An unqualified opinion has been issued on University Columns' financial statements as of and for the year ended June 30, 2012.

Significant Deficiencies and Material Weaknesses - Financial Reporting

There were no reportable conditions in internal control over financial reporting noted during the audit of the financial statements.

Material Noncompliance - Financial Reporting

The results of our tests disclosed no instances of noncompliance which are required to be reported under *Government Auditing Standards*.

FEDERAL AWARDS

This section is not applicable for the fiscal year ended June 30, 2012.

Part II Findings Relating to an Audit in Accordance with *Government Auditing Standards*

There were no reportable conditions or instances of material noncompliance noted during the audit.

Part III Findings and Questioned Costs Relating to Federal Programs

This section is not applicable for the fiscal year ended June 30, 2012.

SUPPLEMENTAL INFORMATION

UNIVERSITY COLUMNS

Schedules of Operating, General and Administrative Expenses Years Ended June 30, 2012 and 2011

	2012	2011
Advertising	\$ 16,532	\$ 39,596
Amortization	-	262
Bad debts	83,556	95,079
Contract services	104,291	112,853
Depreciation	169,473	164,885
Insurance	100,940	88,370
Interest expense	20,887	89,966
Management fee	122,492	119,672
Meals and entertainment	1,065	1,302
Miscellaneous	20,346	29,418
Office expense	787	2,722
Payroll taxes	20,537	20,208
Postage	302	475
Professional fees	35,032	50,811
Rent	359,906	124,854
Repair and maintenance	93,084	193,769
Salaries	248,074	233,388
Supplies	27,381	19,942
Telephone	8,236	6,916
Training	126	1,457
Travel	9,091	10,164
Utilities	273,769	273,659
	<u>\$1,715,907</u>	<u>\$1,679,768</u>

See independent auditor's report on additional information.